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Centre - State Relations in Planning

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FOREWORD

The paper on Centre-State Relations in Planning was initially prepared by Professor H. K. Paranjape for the National Convention on Centre-State Relations sponsored by the Institute of Constitutional and Parliamentry Studies, the Indian Institute of Public Administration and the Indian Law Institute. As the Convention took some time to materialise, and in view of the importance of the subject, it was thought that the paper should also be published in the Indian Journal of Public Administration. Professor Paranjape made some modifications in the paper for its publication in the Journal (published in Vol. XVI, No. 1, January-March, 1970). As the paper deals with an important issue, and the data as well as the analysis contained therein would be of use to a wider body of the public, it is being reprinted in the form of a brochure.

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New Delhi

July 20, 1970

CENTRE-STATE RELATIONS IN PLANNING*

H. K. Paranjape

ONE advantage of having a number of States working together in a federation in a country like India is that the total territory which is included within common customs boundaries, and having a common currency, etc., is extensive enough to provide a large market so that the benefits of the economies of large-scale production and division of labour are easily available. At the same time, especially when it is a federation of people living over a large geographical area, with population running into crores, and having considerable diversity in potential resources, economic and social organization and the level of economic progress already achieved, there are bound to be a number of difficulties in the way of evolving an economic policy which would be of equal benefit to the various parts of the country. This creates difficult Centre-State and inter-State problems in any federation. They become specially acute where, as a result of the adoption of economic planning, the State assumes considerable responsibility for the development and operation of the economy. Centre-State Relations then assume some additional dimensions.

Many special problems then arise, an important one being: How can the country formulate a national development plan which tries to obtain the maximum advantage from having a large area under one Government but which, at the same time, is sufficiently firmly rooted in the diverse regions and areas of the country, taking note of both their potentialities and the needs and aspirations of the people belonging to them. In other words, just like the problem of reconciling economic growth with reduction in inequalities among different classes of citizens, there is also the problem of ensuring a rapid rate of economic growth and at the same time preventing an accentuation of inequalities among different regions and States. How does one formulate a plan and ensure its proper implementation in such a way that it remains a National Plan and at the same time integrates various State plans together so that they are consistent with and complementary to each other? Further, how is this to be achieved in a democratic system under which

*In the formulation of an early draft of this paper, my colleague Dr. S. K. Goyal played a significant part. He could not, however, participate in the final formulation. Shri P. J. Vernekar rendered valuable assistance in the preparation of the paper.

different parties may be in power at the Centre and in various States? How does one make sure of the necessary continuity in development plans when not only might there be different parties in power at the Centre and in the States at the same time, but the complexion of Governments at various levels is liable to change over a period of time? Another concrete question that arises is: With the shortage of resources that is bound to face development planners, how are the resources to be distributed between the Centre and the States, and among the States, so as to satisfy their development requirements?

We attempt in this paper a brief review of the organization and functioning of development planning in India, with a view to bringing out how some of these problems affecting Union-State Relations in Planning have been tackled in the past and indicating the major problems that continue and the possible solutions to them.

I

CONSTITUTIONAL AND ORGANIZATIONAL SETTING

One of the principal objectives of a federal Constitution is to reconcile the claims of National 'sovereignty' with the 'sovereignty' of the constituent States. This is sought to be achieved in the Indian Constitution mainly through the division of powers and functions. Social and economic planning is included in the Concurrent List. Most of the subjects with which Planning is concerned, however, fall either in the Union or in the State List. Among the important subjects falling in the Union List are: large industry, railways, national highways, civil aviation, major ports, shipping, communications, banking, insurance, overall monetary and credit policy, foreign loans and inter-State and foreign trade. The principal sources of revenue allotted to the Centre include taxes on income other than agricultural income, corporation tax, excise and customs. The subjects appearing in the State List include agriculture, forests, fisheries, irrigation, roads and road transport, minor ports, medium and small industry and social services, like education and health. The principal sources of revenue allotted to the States include land revenue, agricultural income tax, stamps and registration duties, and taxes on commodities, especially the sales tax. Power is a Concurrent subject. So are price control and trade and commerce in the production, supply and distribution of food-stuffs, edible oils, raw cotton and raw jute.

The Constitution authorises the Union to regulate and control certain subjects in the State List, such as roads, inland waterways and

mines, if found expedient in public interest. The Union further has the power to co-ordinate and lay down standards in specified spheres like higher education and research.

There are important provisions under which the Centre can exercise a dominating influence over States. These include Article 249 under which Parliament can legislate on any matter included in the State List provided the Rajya Sabha agrees to this by a two-thirds majority. Under Articles 200 and 201, the Governor of a State, who is a nominee of the President, can reserve a bill (except a money bill) passed by the State Legislature for the President's consideration and the latter may refuse to give his consent without assigning any reasons. Under Article 262, the Parliament is competent to provide for adjudication of any dispute or complaint with respect to the use, distribution or control of the waters of, or in, any inter-State river or river valley.

The Constitution provides for the establishment of a quinquennial Finance Commission to distribute between the Union and the States the proceeds of taxes which fall in the divisible pool, to determine the principles which should govern the grants-in-aid to the States out of the Consolidated Fund of India and advise on any other matter referred to the Commission by the President in the interest of sound finance (Articles 270, 272, 275 and 280). In practice, the functions of the Finance Commission have been restricted to ascertaining and covering the revenue gaps of the States. Plan assistance (explained later) has been kept outside the purview of the successive Finance Commissions. Such assistance to States has been provided under Article 282, a miscellaneous financial provision, under which the Union or a State may make grants for any public purpose. The States are authorized to raise internal loans, except that if any Central loan to a State is outstanding, prior permission of the Union Government is necessary before floating a new loan (Article 293). This, in the financial circumstances prevailing in India, means in practice that the Centre's approval is necessary for the loan programmes of all States.

The Constitution (Article 263) also provides for the setting up of an inter-State Council for the purpose of ensuring co-ordination among the States. There is also an Article (360) which empowers the President to take certain special steps in a situation where the financial stability of India or a part thereof is threatened.

Traditions of Centralization

Apart from these various Constitutional provisions which in this

as in many other fields make the Union Government a very dominant partner, traditions regarding governmental and administrative organization that have been inherited as a result of 100 years of British rule accentuate the centralising tendency. In the not too distant past, provincial governments were merely subordinate agencies of the Centre and the influence of that tradition lingers on though it is steadily getting attenuated. The dominance by the All-India Services of many important administrative agencies, and the presence of many of the most senior officers of these Services at the Centre provide a further support to the tradition of accepting the Central Government's guidance and advice. Between 1947 and 1966, when for most of the period the Congress Party was in power all over the country, these centralizing tendencies were somewhat strengthened because the Central Cabinet usually consisted of the more senior and influential political leaders of the Congress Party as compared to those in power in the States during the period.

The Planning Commission

Though the subject of social and economic planning figures in the Concurrent List, the Government of India decided in 1950 to set up the Planning Commission merely by an executive order and in that sense made it a body subservient to the Union Government. The powers, functions as well as the procedures of the Planning Commission have evolved since 1950 as a result of working conventions, especially regarding the relationship between the Planning Commission and the States; the Commission has no statutory authority over them.

When the Commission was first appointed, the Resolution setting it up indicated that in framing its recommendations, the Commission would act "in close understanding and consultation with the Ministries of the Central Government and the Governments of States. The responsibility for taking and implementing decisions will rest with the Central and State Governments".[1] The Resolution expressed the hope that the States would give the fullest measure of help to the Commission so as to ensure maximum Coordination in policy and unity in effort.

This position of the Planning Commission, as a non-statutory body essentially responsible in terms of law to the Union Government, has continued unchanged. At the same time, there is no doubt that the Commission has been able to build up a reputation of having a distinct personality of its own and to play a genuinely national role and the States have usually accepted this.

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[1] Government of India Resolution (Cabinet Secretariat), No. 1-P(C)/50, dated March 15, 1950.

National Development Council

It was at the suggestion of the Planning Commission itself that the National Development Council (NDC) was constituted in August, 1952, to serve as the highest reviewing and advisory body in the field of Planning.[2] The NDC was expected not only to promote common economic policies in vital spheres and ensure balanced and rapid development of all parts of the country but also to review the working of the National Plans from time to time and recommend measures for the achievement of the aims and targets set out in them. The Council's membership included the Prime Minister, the Chief Ministers of all the States and the Members of the Planning Commission. Other Union and State Ministers were invited to attend the Council's meetings when considered necessary. Over the years a practice developed, according to which most of the Union Cabinet Ministers as well as some of the Ministers in the States, especially the Finance Ministers, were invited almost invariably to attend NDC meetings. The Council also occasionally formed Sub-Committees to go into questions requiring special attention.

The NDC was thus clearly conceived as a federal body, though non-statutory in character, to give the States a greater sense of participation in formulation of National Plans and in bringing about a national consensus regarding Plan policies. The Council used to meet frequently at the time of formulating Five Year Plans, while it did not meet very much in other years.

After the recommendation of the Administrative Reforms Commission (ARC) in 1967, the Government reconstituted the NDC to include as Members all Union Cabinet Ministers—in addition to the Prime Minister, the Chief Ministers of the States, and the Members of the Planning Commission. Its functions have also been redefined—the most important change is that the NDC is now definitely charged with the responsibility of laying down guidelines for the formulation of the National Plan.[3]

Another instrument created by the Planning Commission for the purpose of developing close liaison with the States was the institution of Programme Advisers. The Programme Advisers were expected to function as "the eyes and ears" of the Planning Commission *vis-a-vis* the States falling in their jurisdiction. Three senior officers were appointed in 1952 to these positions. The idea was that they would

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[2] Government of India Resolution (Cabinet Secretariat), No. 62/CF/50, of August 1952.

[3] Government of India Resolution (Cabinet Secretariat), No. 65/15/CF-67, dated October 7, 1967.

be persons sufficiently knowledgeable about the problems, prospects and actual developments in States and, therefore, be in a good position to advise the Commission on the State Governments' proposals and, at the same time, to help the States in their planning effort. While the persons appointed to these posts have been very senior officers, mostly belonging to the ICS or the IAS, there has been considerable turn-over among them and few advisers have been in the same positions for any length of time. Twenty-one officers have occupied this position from 1952 up-to-date; not one of those in position today has continuously worked in that capacity[4] even for a year.

Planning Machinery at the State Level

To start with, few States had specific whole-time agencies for planning. In course of time, most of the States came to establish special departments in charge of planning. At present, all except four States have such departments. While most States have small Plan Evaluation Organizations, Bureaux of Economics and Statistics, and Sections dealing with manpower, the State Planning Machinery remains, in most cases, at a somewhat rudimentary level.

The Planning Commission has from time to time impressed on the States the importance of developing an effective State planning organization through establishing State Planning Boards. This, however, has not found favour with most States. The ARC also recommended the creation of State Planning Boards[5], more or less on the pattern of the Planning Commission—a recommendation supported by the Planning Commission. Except in one State, however, no Planning Board of the type envisaged by the ARC has been set up. The States also are apparently not convinced of the necessity of having any elaborate planning set-up.[6]

II

PLANNING PROCESS

Formulation of Plans

The process of plan formulation— and the pattern of Union-State Relations relating to it—have been evolving since 1950. Without

[4] For a detailed analysis of the working of the Institution of Programme Advisers, see H. K. Paranjape, *Planning Commission: A Descriptive Account*, New Delhi, Indian Institute of Public Administration, 1964, pp. 41-46.

[5] Administrative Reforms Commission, *Interim Report on the Machinery for Planning*, Delhi, Manager of Publications, Government of India, 1968, p. 19.

[6] See *Report of Workshop on Planning at the State Level*, New Delhi, IIPA, (May 19-21, 1968).

going into the whole history of the evolution of the planning process, the principal features of the process as it worked during this period might be indicated. After formulating the overall macro framework for the National Plan and broadly indicating the quantitative magnitudes as well as major policies involved in the adoption of this framework, the Planning Commission attempts to indicate to each State, both financial magnitudes of the outlay for the State Plans and guidelines regarding the formulation of the sectoral proposals. The States then formulate their plan porposals and send them to the Planning Commission. The difficulty has been that the suggested financial magnitudes are exceeded by most of the States in their plan proposals (*see* Table 1). Similar has been usually the case regarding the plan proposals prepared by various Departments as well as Districts in States. In many cases, the plan outlays proposed by different Departments and Districts put together add up to an outlay which is much in excess of the plan ceiling suggested by the Planning Commission for the State.

The NDC is consulted by the Planning Commission at various stages of plan formulation. The initial macro-economic framework as well as policy proposals are placed before the Council, discussed and its general approval obtained. However, the Planning Commission has, not been able to obtain any clear guidelines or firm commitments from the Council. The discussions in the Council, while approving of the goals in general terms, have not led to commitments in terms of acceptance of the discipline required by way of policies, regulations or mobilization of additional resources. It is also not unusual to find that State representatives on the Council use the platform of the NDC mainly to air the grievances of their own States. Chief Ministers of States are by and large content to point out the importance of providing more Central assistance to the States and permitting the States to undertake more schemes; usually they are also vaguely in favour of larger development outlays. At the same time, they are reluctant to make any clear commitments about their share in the proposed mobilization of resources. The Central Government also has generally found it difficult in the early stages of the formulation of the Five Year Plan to take decision regarding the magnitude of the financial mobilization that the Centre would undertake. The tug-of-war between the Planning Commission and the Finance Ministry about the contemplated size of public sector outlay has many times continued almost till the beginning of the Five Year Plan period, thus keeping the question of the size of public sector outlay undecided till a very late stage of plan formulation.

Many other factors also contribute to unrealistic plan formulation.

The system of Central assistance that was gradually evolved, emphasized the distinction between 'Plan expenditure' and 'non-Plan expenditure'—the latter including what came to be known as 'committed' expenditure on development schemes which were already under implementation in the previous Plan period. While Central assistance provided by the Planning Commission was expected to meet the States' deficit on account of Plan expenditure, assistance provided on the basis of the award of the Finance Commission was expected to bridge the gap in the States' finances due to non-Plan expenditure. The award of the Finance Commission normally followed the finalization of the Plan. In order to ensure that the Finance Commission should be more sympathetic in awarding assistance, each State thought it appropriate to show that it has to cover a large gap, the assumption being that the larger the gap the larger would be the assistance recommended. The attitude regarding Plan assistance was somewhat less clear. On the one hand, it was assumed that the larger the gap between approved outlay for the Plan and the expected financial resources that the State can mobilize, the larger would be the Plan assistance. At the same time, the States were also aware that the Planning Commission frowned upon very large gaps and many times insisted on reducing Plan outlay if the State's own resource mobilzation was expected to be inadequate. The assumption in this respect has, therefore, not been clear. In the past, State Governments found that having secured the Planning Commission's approval for a large Plan outlay, and having initiated a number of schemes and programmes on that basis, it was easier subsequently to bargain for larger Plan assistance at the time of Annual Plan discussions. In any case, the result was that the States put forward estimates of Plan outlay far in excess of what could be financed from their own resources, almost assuming that there was no limit to Central assistance.

Apart from regional pressures, sectoral pressures tended to inflate the size of State Plans. In subjects like community development, education, health and social welfare, the concerned Central Ministries suggested programmes and schemes to the States which tended to unduly inflate the proposed State outlays in these sectors.[7] The fact that plan formulation in the case of the first three Plans coincided with the General Election was another factor leading the State Governments to include in the Plan proposals a number of schemes which had not been properly formulated. All these factors contributed to inflating State plan proposals in financial terms and also to including in

[7] This observation is based on an analysis of the reports of the Working Groups and Programme Advisers. Prof. D. R. Gadgil makes a similar point in "Formulating the Fourth Plan", *Yojana*, New Delhi, February 23, 1969.

them projects and programmes which were not ready for implementation.

Plan Discussions

An elaborate system of discussions between the Planning Commission and the State Governments has evolved over the years. As mentioned above, the State proposals were usually far in excess of what was considered practicable and included schemes and programmes the details of which had not been worked out. The examination of these proposals, therefore, created considerable difficulty. Even though attempts were sometimes made to persuade the State Governments to modify their proposals at an early stage, such attempts mostly failed and all these issues remained open till the last stages of Plan formulation. All the matters had then to be decided within a comparatively short period of time—two or three days. The Sectoral Working Groups representing the Ministries at the Centre and the departments in the States failed to bring about any significant streamlining or rationalization of the State proposals. The task of reducing proposed outlays to some realistic levels was thus left largely to the Planning Commission.[8] The Programme Adviser would formulate his proposals, with the informal understanding, if not approval, of the State finance and planning officers, and these were finally considered in a meeting between the Planning Commission and the State Government. Till recently, as no clear previous decisions were available about the magnitude of Central assistance, each State Government considered it appropriate to go on bargaining for maximum assistance right up to the last stage. The discussions tended to become lop-sided, too much emphasis being placed on needs and too little on resource availability, resource mobilization, and scrutiny of programme proposals. The result of this process of decision making regarding State Plans was that right till the beginning of the Five Year Plan or sometimes even afterwards, it was not quite clear what the size of outlay would be for the State as a whole and, therefore, for each department and for individual schemes and programmes. Large-scale cuts at the last minute or keeping certain matters pending, also led to considerable uncertainty. The result of including projects which had not been properly formulated was that actual implementation of these could not be taken up for some time; at the same time, funds were earmarked for them.

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[8] For instance, the Plan outlays suggested by a particular State at the time of the formulation of the Draft Outline of the Fourth Plan (August, 1966) was Rs. 300 crores, the one recommended by the Working Groups was Rs. 258 crores, that recommended by the Programme Adviser was Rs. 176 crores and that finally approved by the Commission was Rs. 190 crores. The corresponding figures for another State were Rs. 1,130 crores, Rs. 1,013 crores, Rs. 860 crores and Rs. 951 crores, respectively. Also see Table 2.

Annual Plans

Partly as a result of the failure in the formulation of Five Year Plans in operational terms and partly because of the realization that the necessary flexibility in development planning could only obtain through a system of Annual Plans, annual planning came to be emphasised from 1957-58. The hope that the Annual Plans would be formulated in a more realistic manner was, however, belied. Annual Plan proposals suffered from defects similar to those mentioned above regarding the Five Year Plans, though to a somewhat smaller degree (see Table 2). The process of discussion and the problems that had to be sorted out were also, therefore, essentially similar. The Annual Plan not being finalized till January or February, and large cuts being then made in the proposals put forward by the States and by various departments in a State, created many operational difficulties in the way of the smooth progress of development schemes and programmes.

The result of all these difficulties was that the Plan expenditure was not phased appropriately and the results of Plan outlays in physical terms were much worse than anticipated. It was alleged in many quarters that an important reason for the distortion in the system of State Planning was the manner in which Central assistance for State Plans was organized.[9]

Plan Review, Evaluation and Control

Because of the considerable financial dependence of State Governments on the Centre for conducting Plan programmes and implementing projects, it was necessary for the State Governments to get their schemes and projects approved by the Planning Commission as well as, in some cases, by the concerned Central Ministry. Progress reports on the schemes and projects so assisted were also submitted and these were used by the ministries as well as the Planning Commission for examining the assistance requirements for the next Plan period—one year or five years. Unfortunately, except in the case of major projects, it has not been possible for the concerned authorities to keep track of the progress of the projects and programmes. Therefore, the progress of actual implementation was not adequately known for a review to be made so as to assist further planning. The evaluation organizations

[9] Three Study Teams of the ARC, those on 'the Machinery for Planning', 'Financial Administration', and 'Centre-State Relationships', as well as the ARC, all reached a similar conclusion. See ARC, *Final Report of the Study Team on the Machinery for Planning*, paras 10.47 & 10.48; ARC, *Report of the Study Team on Financial Administration,* para 14.5; and ARC, *Report of the Study Team on Centre State Relationships*, para 7.10. (Delhi, Manager of Publications, Government of India).

in the States were mostly inadequate for improving implementation and performance. The Programme Evaluation Organization (PEO) of the Planning Commission has been more effective; but its work was largely confined to Community Development programmes and later, to rural development programmes. In these fields, however, the reports of the PEO did provide useful guidelines for helping the planning authorities to improve Plan formulation as well as implementation. The studies conducted by the Committee on Plan Projects were also useful, but they were conducted on an *ad hoc* basis and their coverage was limited.

One of the difficulties in reviewing Plan programmes has been that targets are usually not set in physical terms and there is no period-wise break up of the physical programmes. The result has been that in many sectors the only figures on the basis of which implementation could be judged have been those relating to financial outlay.

The Programme Advisers were originally expected to be able to watch the progress of the most important projects and programmes. It has been found that they have not been able to do this effectively. The knowledge at the Centre about the progress of Plan programmes and projects except in a few fields like irrigation and power has thus remained inadequate.

III

MAIN POINTS OF DISPUTE

Development planning in India since 1950 has given rise to a number of controversies between the Centre and the States. Controversy was somewhat mute in the period before 1961 when development planning was still comparatively new and the States were politically and administratively much more under the influence of the Centre. The points of dispute began to be aired more openly from the time of the formulation of the Third Five Year Plan. They assumed even greater magnitude as a result of the political developments after 1964—the death of Jawaharlal Nehru, the economic difficulties of 1965 and 1966, the interruption in Planning, and the changing political situation, specially after the General Elections in 1967.

One of the major complaints of the States has been that of over-centralization and Central domination in this as in many other fields of Governmental activity. For long, one of the principal points of criticism was the allocation of Central Plan assistance. It was pointed

out that not only had the size of the Plan outlay at the Centre been increasing more rapidly than that of all the States taken together, but the manner in which the States should undertake development efforts had also been attempted to be dictated by Central authorities. The advantage that the Centre enjoyed because of the more flexible financial resources allotted to it under the Constitution, and the increasing role of foreign assistance in India's development finance which further increased the funds at the disposal of the Centre, were said to be the factors responsible for Central domination. The result was alleged to be that the States, though responsible for some of the most crucial sectors of national life, such as agriculture, education and health, were starved of financial resources, while there was more than adequate finance available at the Centre even for less essential developments. Even in regard to subjects which were constitutionally the responsibility of the States, the Centre was in a position, through conditional financial assistance to impose its own policies and programmes on States, irrespective of the relevance or priority of the proposal to a particular State. The result was said to be that not only was the essence of the federal system as envisaged by the Constitution subverted but genuine development properly related to the specific resource potential and felt requirements of each State could also not take place.[10] Imposition of a superficial uniformity was in effect a waste of resources. Moreover, undertaking schemes and projects to which the State administration did not feel adequately committed resulted in the projects and programmes not being properly implemented. Instances are known when programmes were discontinued as soon as specific Central assistance for them ceased.

At the same time, it was pointed out that one of the possible advantages that should have arisen out of such centralization, *viz.*, balanced development of the country as a whole, had not been achieved. It was alleged that under the Plans, as in the case of individuals so also in the case of regions and States, the rich had grown richer and the poor, poorer. While not all States pitched their criticism so high, many of them felt that the imbalance in development in the pre-Independence period had not been much corrected through Planning. Central projects not being evenly distributed, the ineffectiveness of industrial licensing for ensuring the location of industries in less industrialized regions and States, the concentration of financial assistance by Central financial institutions in favour of the already developed States, and the inadequate assistance provided by the Centre for the development of less developed States were all mentioned as important factors contributing to the continuance of such an imbalance.

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[10] *See* ARC, *Report of the Study Team on Financial Administration*, op. cit, paras 14.2 to 14.5 (pp. 77-78). Also see paras 5.1, 5.2, 8.7 and 8.8 of the ARC, *Report of the Study Team on Centre-State Relationships*, op. cit.

As against this, the Central authorities complained that State planning and development efforts continued to remain at comparatively rudimentary levels.[11] It was felt that in spite of various suggestions made from the Centre, the States had failed to develop a proper machinery for effective development planning. There was also too much short-sightedness in the formulation of plans, too little understanding of the discipline that was necessary, and inadequate political courage and administrative competence to implement the necessary measures. More projects were taken up than could be financed, resulting in thinly spreading investment over a number of projects, and leading to long gestation periods and insufficient or delayed returns. It was said that the States had merely made the Centre a whipping boy for their own failures.

There is considerable truth in such criticisms made on both sides. With the allocation of financial resources being what it is, it is undoubtedly true that the Centre has all along been in a far better financial position. The result has been that not only in respect of subjects under the jurisdiction of the Centre, but even in respect of subjects, for which the responsibility has to be borne by the States, funds are far more easily available at the Centre than in the States. While to some extent, financial devolution is effected on the award of the Finance Commission, an increasing part of financial assistance from the Centre flows to the States on the advice of the Planning Commission. This undoubtedly has given the Centre and the Planning Commission considerable leverage in respect of State Plans and programmes. The Centre's influence on State planning is exemplified by the fact that the pattern of State Plan outlays under successive Five Year Plans increasingly came to be uniform.[12] Because of the system of schematic matching assistance, the States had been almost compelled to accept not only particular schemes but even details, such as patterns of staffing regarding the schemes suggested by Central Ministries. It was not as if the Ministries at the Centre have always had adequate and effective information about the situation in individual States so as to be in a superior position to work out what was good and suitable for their development. It was, therefore, rightly resented by the States that, because of financial strength, Central authorities have been in a position practically to dictate development plans and programmes to them. At the same time, it should be remembered that States which were politicially stronger, such as West Bengal under Shri B. C. Roy, were

[11] For a detailed review of Planning in the States see ARC, *Final Report of the Study Team on the Machinery for Planning*, op. cit., Chapter VII.

[12] ARC, *Report of the Study Team on the Machinery for Planning*, ibid, para 7.11 (p. 17). Also see para 14.5 (p. 79) of ARC, *Report of the Study Team on Financial Administration*, op. cit.

able to insist on having their way in certain matters. Moreover, with the inadequate machinery at the Centre for evaluation of projects and programmes and keeping track of their progress, the uniformity that was insisted upon generally proved to be superficial. It had also not been possible for the Central leadership to take a firm attitude when the States failed to implement what they had agreed to at the time of the formulation of the Plans. The net effect of all this was the erosion of initiative as well as responsibility on the part of States in the sphere of development. This also helped to perpetuate a situation where development planning in the States remained at a rudimentary level, much of it not being based on proper examination of local resources and potentialities.

Another important factor which had a deleterious effect on State Planning was that, till recently, there was no clear set of principles on the basis of which Central assistance was distributed among States. This helped create a feeling among States that pitching their demands high, followed by hard political bargaining was a fruitful tactic for obtaining a larger share of Central assistance. At the same time, bad financial management—as instanced by large over-drafts from the Reserve Bank—being tolerated, may be with some feeble protests, created an impression that the Centre would not insist upon financial discipline and that indiscipline would be tolerated.

It is also true that the State Governments had hardly made adequate efforts to strengthen their planning organizations. Only thus could long-term Plans have been prepared based on a study of their own resources and potentials. While the strengthening of the planning organization in States was specifically mentioned in the Third Plan document as a vital step,[13] nothing effective was done either by the Centre or by the States to follow this up. The result was that planning in the States continued to be largely what it was at the beginning of Planning—an *ad hoc* collection of schemes which were not necessarily well-integrated in terms of ensuring best results. The agitations that State Governments supported (if they did not always sponsor them) regarding location of particular industrial projects within their territory also arose at least partly because neither the Centre nor the States had worked out long-term plans of development which would indicate the lines along which development would take place in different parts of the country. When a State did not know that its best potentials lay in particular types of development and that these would be taken up at a scheduled point of time, it was not surprising that an agitational

[13] Planning Commission, *Third Five Year Plan*, Delhi, Manager of Publications, Government of India, p. 289.

approach of grabbing a part of anything that was happening appealed to the State leadership. The failure here was not that of the State Governments alone; the Centre had a major share in it. The failure to formulate long-term plans, industry-wise and region-wise, was almost an invitation to the agitational approach.

In discussions about unbalanced regional development and specially the handicaps from which certain States suffer, attention came to be mainly concentrated on Central assistance and the location of public sector projects. The location of private sector projects as well as the financial assistance provided by Central financial institutions for industry also received some attention. But the unequal distribution of bank credit among different regions and States hardly received any attention in the past. More recently, it has been pointed out that one of the major defects of the functioning of the banking system in India has been that its development has been very lop-sided.[14] There is almost over-development of banking facilities in certain States and areas, while ~~certain~~ others are woefully neglected. This, combined with sectors like agriculture and small industry being neglected by banks and the inadequate development of alternative channels of credit, such as cooperatives, resulted in making the development of these sectors and, therefore, of States and areas where large industries were not located, slow. This factor affected the rate of economic growth, not only in the country as a whole, but also specifically in certain areas and States. Unfortunately the planning authorities had not given enough attention to this problem in the past, beyond stating that cooperative credit must be developed to bridge such credit gaps.

The inadequacy of the planning organizations in the States and to some extent in the Centre were mainly responsible for these ills. The very inadequate and superficial consultation between the Centre and the States in the process of Plan formulation had also something to do with this.[15] While the NDC was established in the early years of the First Five Year Plan, it never developed a method of functioning under which there would be well-informed and full-scale consultation at professional and administrative as well as ultimately at the political levels so as to ensure that Plan formulation proceeded in the States as well as at the Centre in step with each other. Because of the high political status of the membership of the NDC, it was not possible to have frequent meetings of that body. The result was that no real discussion of specific

[14] *Report of the Study Team on Banking Institutions and Indian Economy—a Critical Review.* (Report submitted by a group of economists—Dr. S. K. Goyal, Convener—to Secretary, Congress Party in Parliament), 1967.

[15] ARC, *Final Report of the Study Team on the Machinery for Planning*, op. cit., p. 11.

problems was possible and no clear guidelines worked out for the formulation of policies and Plans.[16] The fact that, unlike at the Centre, in most States no special expertise in planning was developed and maintained in position, also undoubtedly contributed to the lack of a proper and sustained dialogue at the professional level between the Centre and the States. The institution of Programme Advisers, though well conceived, in practice failed[17] to provide an effective instrument for liaison between the Centre and the States.

IV

SUGGESTIONS FOR REFORM

These various defects in the system of planning as it developed over the years, and especially the distortions and anomalies that crept in as a result of the scheme of Central Plan assistance, came to be increasingly criticised in various quarters and most State governments were at the forefront of these critics. As early as 1964, the Planning Commission itself realized that the plethora of patterns of assistance and Centrally sponsored schemes were not serving the purpose for which they were initiated and that much simplification and liberalization in this regard was necessary. Thus, as a part of the formulation of the erstwhile Fourth Five Year Plan, the Commission initiated a dialogue on this subject with the State Governments as well as the Central Ministries. While this exercise was under way, some of the State Chief Ministers, during discussions in 1965 on the preliminary memoranda of the States' Fourth Five Year Plan, suggested that a set of principles should be evolved for the distribution of Central assistance among the States for the Fourth Five Year Plan. As it happened, when this matter came up before the NDC no agreement could be reached on the precise criteria that should be followed in the allocation of Central assistance. Therefore, the responsibility for this shifted back to the Planning Commission. As a result of the studies and discussions on the problems of Centrally aided and Centrally sponsored schemes and the patterns and procedures of Central assistance, a number of changes therein were brought about. The number of patterns was reduced and the remaining ones were made simpler. The revised patterns were generally related to the heads and sub-heads of development or groups of schemes, except in the case of a few schemes under education and health where

[16] ARC, *Interim Report on the Machinery for Planning*, Delhi, Manager of Publications, Government of India, para 39 (p. 22). Also see paras 6.8 & 6.9 of the ARC, *Report of the Study Team on Centre-State Relationships*, op. cit.

[17] ARC, *Final Report of the Study Team on the Machinery for Planning*, op. cit., paras 10.62 to 10.66 (p 135 & 136).

the assistance was related to specific items. As a result of these continued efforts, the number of Centrally sponsored schemes which stood at 147 in the middle of 1966 came to be reduced to 90 by the middle of 1968. But the feeling continued among the States that the simplification and rationalization introduced as a result of these deliberations had not gone far enough.

In the meantime, the Administrative Reforms Commission had been constituted and it was decided that the reorganization of planning machinery and revision of planning procedures might be considered as a part of the overall scheme of governmental reorganization to be proposed by the ARC.

This whole question of planning machinery and process, together with the question of Union-State relations in the field of planning, was gone into at some length by the ARC and its Study Teams on the Machinery for Planning, Financial Administration and Centre-State Relationships. As regards the respective jurisdiction of the Planning Commission, the Union Government and the states in the planning process, the Study Team on the Machinery for Planning was of the view that the Planning Commission should only be responsible for formulating the objectives, laying down priorities, indicating broad sectoral outlays, fixing the basic targets and approving the main programmes together with criteria for selection of projects and schemes. The Team was further of the view that detailed sectoral planning, including elaboration of targets and formulation of individual projects and schemes, their detailed examination, scrutiny and implementation should be the responsibility of the respective Central Ministries, State Governments and other executive agencies. The Study Team further recommended that, as a general rule, greater freedom of action than in the past should be permitted to the States in State subjects except in matters involving national priorities[18]. This view was endorsed by the ARC[19]. It will be observed that the prescription suggested by the ARC and its Study Team for delineating the respective roles of the Planning Commission, the States and other agencies in the planning process was mainly governed by the need to reconcile the conflicting claims of centralization which the logic of overall planning imposes, with the necessity of allowing adequate autonomy and initiative to the constituent units of the Union, to enable them better to carry out development in keeping with their own potentials and requirements.

The recommendations of the ARC and its Study Team on the

[18] ARC, *Final Report of the Study Team on the Machinery for Planning*, ibid., para 2.11 (p. 23).

[19] ARC, *Final Report on the Machinery for Planning*, op. cit., para 84 (pp. 34-35).

subject of Central assistance essentially followed the same logic. The Study Team recommended that the instrument of Central assistance should be used for the purpose of ensuring adequate mobilization of resources by the States, influencing the size and priorities of State Plans in such a manner that all the State Plans taken together satisfied the priorities and targets in the National Plan, and also for reducing inter-State disparities. The need for evolving objective criteria for the distribution of Central assistance was also emphasized. The Team suggested that Central assistance should be related to main heads of development in the Plan and emphasized that there should be no attempt to relate assistance to sub-heads or individual programmes except in the case of a few schemes of national importance.[20]

The ARC's Study Team on Financial Administration was of the view that the proportion of discretionary element in Central assistance should be considerably reduced and the united element increased. The Team recommended a shift from discretionary grants to semi-judicial allocations. To achieve this, it suggested that one and the same body should deal with both Plan and non-Plan assistance. It recommended for this purpose a permanent Finance Commission, with a Vice-Chairman who would also be a member of the Planning Commission, the Chairman and other Members being appointed for a period of six months or so when the award was to be given[21]. Another institutional innovation suggested by this Team was the creation of a National Development Bank for channelizing long-term finance for large and identifiable projects.[22]

The ARC's Study Team on Centre-State Relationships had also gone into this problem. The Team was in favour of giving the States block amounts as Central grants, and the freedom to use these amounts according to their discretion, except in the case of programmes of crucial importance. As regards the respective roles of the Planning Commission and the Finance Commission, the Team was of the view that the Planning Commission should deal with grants, both Plan and non-Plan, and the Finance Commission should be responsible only for the devolution of taxes and duties.[23] It may be recalled that the Second Finance Commission had also referred to the overlap of functions between the Planning Commission and the Finance Commission.[24] The

[20] ARC, *Final Report of the Study Team on the Machinery for Planning*, op. cit., paras 10.42 to 10.48 (pp. 130 to 133).

[21] ARC, *Report of the Study Team on Financial Administration*, op, cit., paras 14.7, 15.3 to 15.8 (pp. 79 to 85).

[22] ARC, *Report of the Study Team on Financial Administration*, op. cit., Ch. XVII.

[23] ARC, *Report of the Study Team on Centre-State Relationships*, op. cit., paras 7.19, 2.32 & 2.33.

[24] *Report of the Second Finance Commission* (1957), Delhi, Manager of Publications Government of India, p. 13.

Third Finance Commission had gone a step further and suggested that either the functions of the Finance Commission should be enlarged to embrace total financial assistance to States or the Planning Commission itself should be transformed into a Finance Commission at the appropriate time.[25] [26] [27]

These Study Teams also suggested that the number of the Centrally sponsored schemes should be kept to the minimum; the Study Team on Centre-State Relations actually wanted the total abolition of Centrally sponsored schemes.

The ARC's own approach in recommending liberalization of the scheme of Central assistance was broadly along the lines of the recommendations made by its Study Teams. It, however, recommended a penal clause when it suggested that if there was a shortfall in the implementation of the State Plan taken as a whole and, as a result, the Central assistance utilized by a State was found to be more than what was proportionate to the expenditure to be met by the State out of its own resources as initially settled, there should be a corresponding reduction in further Central assistance.[28]

As regards the respective roles of the Finance Commission and the Planning Commission, the ARC was of the view that there was no inherent conflict in the jurisdiction of the two bodies and, therefore, there was no need to amalgamate their grant-giving functions.[29] The ARC was also against the creation of a financial institution like the National Development Bank as suggested by the Financial Administration Study Team[30].

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25 *Report of the Third Finance Commission* (1961), Delhi, Manager of Publications, Government of India, pp. 35-36.

26 On the other hand, the Fourth Finance Commission, though it was of the view that the Constitution did not preclude it from recommending Plan grants, chose not to do so as it thought that Plan requirements being specifically the function of the Planning Commission, there should be no division of responsibility in regard to any element of plan expenditure [*Report of the Fourth Finance Commission* (1965), p. 9].

27 The Fifth Finance Commission, unlike its predecessors, was specifically asked not to take into account Plan requirements of States while recommending grants under Article 275. In spite of the representations made before it, it was not prepared to do anything that would blur the division of functions between the Finance Commission and Planning Commission [*Report of the Fifth Finance Commission* (1969), p. 121].

28 ARC, *Final Report on the Machinery for Planning*, op. cit., Recommendation 11 (4), p. 30.

29 ARC, *Final Report on the Machinery for Planning*, op. cit., paras 79 and 80 (p. 31).

30 ARC, *Final Report on the Machinery for Planning*, op. cit., paras 81 and 82 (pp. 31-33).

V

HAVE THE REFORMS SUCCEEDED

Reforms Implemented—Not Adequately Effective

These suggestions relating to the planning procedures have been mostly accepted by the new Planning Commission. Various instructions issued by the Planning Commission in connection with the preparation of the States' Fourth Five Year Plan indicate that the Commission has urged the States to exercise considerable initiative in working out the lines of their development. The Commission has also made it clear that they need not go in for standardized schemes and should feel largely free to choose their own programmes albeit within the national priorities. The need for working out Plan schemes with a high degree of specificity has been specially stressed so that those concerned with coordination and synchronization would be able to scrutinize the techno-economic feasibility of projects.

The Commission has also decided that block grants of Central assistance would be made to the States. The freedom so granted to the States is only subject to two constraints. Firstly, with a view to ensuring that main Plan priorities are maintained, outlays under certain programmes and specified schemes are to be earmarked and will not be allowed to be diverted except with the prior approval of the Planning Commission. It appears that this provision would make sure that a State does not divert resources made available for a scheme in an advanced stage of implementation, on which ground some additional assistance may have been sanctioned to it, to other schemes thus slowing down the project's near completion. Secondly, to ensure that the States fulfil their part of the responsibility, the actual payment of Central assistance has been made dependent on the State's fully meeting the target of approved outlays. In case there is a shortfall in expenditure in relation to the approved outlay, Central assistance would be proportionately reduced.

The number of Centrally sponsored schemes has been further reduced from 90 to 52; the outlay on these schemes is not now (Fourth Plan—1969-74) expected to exceed one-sixth of the Central Plan assistance to States. Specific criteria for the distribution of Central assistance among the States have been evolved as a result of the deliberations of a Committee of the NDC, specially constituted for the purpose. According to the agreed formula, 60 per cent of the Central Plan assistance to States during the Fourth Plan is to be allocated on the

basis of population and 10 per cent each on the basis of: (*i*) per capita overall tax effort for three years in relation to per capita income; (*ii*) continuing major irrigation and power schemes; and (*iii*) special problems peculiar to individual States. The remaining 10 per cent is to be distributed among six States having a per capita income below the National average Starting with 1969-70, 70 per cent of the Central assistance is being uniformly given in the form of loans and 30 per cent in the form of grants.

At the time of the discussions on the Fourth Plan, a firm idea of the amount of Central assistance to be made available to the States during the Plan period was given to the States even when the size of the total public sector Plan was yet to be decided. The distribution of Central assistance among the States was made in accordance with the above principles. With the scope for bargaining regarding Central assistance being thus virtually eliminated, and the States knowing in advance the amount of Central assistance, it was expected that the States would become more realistic in the formulation of their Plan proposals. The Fifth Finance Commission was appointed earlier than required and was requested to submit an interim report by September 1968. It was thought that removing the uncertainty due to the prospective recommendations of the Finance Commission would help more realistic preparation of the State Plan proposals.

Subsequent experience, however, does not suggest any substantial improvement in the process of Plan formulation as a result of the various steps that have been undertaken. Available information suggests that the actual formulation of the State Plan proposals continued largely in the old grooves. The recent innovations do not seem to have significantly contributed to more realism in the State Plan proposals. The outlay approved in April, 1969, by the Planning Commission as practicable, on the basis of its own estimate of the State's proposals for resource mobilization and Central assistance, as a proportion of the outlay proposed by the State itself, did not exceed 90 per cent in the case of any State, exceeded 80 per cent only for four States and 70 per cent for another five. There were seven States where the proportion was between 50 per cent to 70 per cent and one where it was below 50 per cent. This suggests that these remedies have not proved very effective uptill now. The States continue to ask for larger Plan outlays without being prepared to observe the financial discipline necessary for the purpose. In November, 1968, when the Committee of the NDC met to consider the proposed resource mobilization effort by the States, and when the NDC subsequently met in April, 1969, to discuss the draft of the Fourth Plan, the States almost unanimously voiced a demand for increased Central assistance on the plea that the resource

mobilization suggested by the Planning Commission for the States was not practicable. When the NDC met in March, 1970, finally to approve the modifications to the Draft Fourth Five Year Plan, most States' representatives again expressed the opinion that adequate attention was not being paid to their needs. This was despite the fact that as a result of the reappraisal of the resource position, as promised in April, 1969, the total States' Plan outlay had been stepped up by Rs. 540 crores as compared to the draft Plan. Some States continue to express themselves firmly against the limitation regarding State plan outlays suggested by the Planning Commission and approved by the NDC.

In respect of unrealistic planning and lack of will to accept the necessary discipline for larger development effort, one cannot discern any significant difference among the States governed by different political parties. It may be noted that of the two States governed by leftist United Fronts in 1969-70, neither one suggested an outlay which according to the Planning Commission was realistic—in both, the approved outlay was below 70 per cent of the proposed one. (See Col. 8 of Table 3)*. The justification put forward by the State Governments in this respect was that, in their view, the Central share of overall plan outlay should be decreased and the States' share increased. They even suggested a drastic reduction in the size and activities, if not abolition, of Central Ministries such as Agriculture, which deal with subjects in the State List.[31]

Communication Gap Between the Centre and the States

It is important that the States feel assured that what is being suggested by Central authorities, and especially by the Planning Commission, is based on valid techno-economic considerations. It was observed in November, 1968, that the States were asked at an NDC meeting to accept certain outlay figures, including those for Central assistance for the States, without being told what the Central Government's own commitment regarding resource mobilization or overall outlay for development was. The States did not appreciate this. The distribution of total outlay among different sectors, and that of public sector outlay between the Centre and the States, are matters of vital interest and importance to the States and they cannot easily be persuaded to accept the Planning Commission's recommendations unless the total logic behind these is explained to them. The attempt to

*The approved outlays of States as indicated in the proposed final version of the Plan submitted to the NDC in April, 1970, are given in Col. 9 of Table 3.

[31] These suggestions were made by some Chief Ministers at the time of the NDC meeting in April, 1969.

involve the States through the NDC in the process of Plan formulation from an early stage requires that proper organization and procedures for consultation at professional and administrative levels must be developed. Unless this is done, in the political situation as it is evolving, it would be too much to expect that the States would agree to what may be thought to be an *obiter dictum* of the Planning Commission. That even in April, 1969, the Planning Commission could not secure from the NDC a unanimous approval of the draft Fourth Five Year Plan was an indication of how difficult the task is. The attempt is not made any easier by vacillations and lack of clarity at the Centre.

The nature of the debate in the National Development Council in March, 1970, at the time of finally approving the Fourth Five Year Plan, re-emphasizes the conclusion that without a much more radical improvement in the whole nature of planning and Plan discussions, the differences between the Centre and the States in Plan formulation can only be superficially 'papered over', not genuinely resolved. While the Plan was approved by a general consensus, various State Governments expressed their reservation about different aspects of the Plan proposals. While all States were unanimously demanding that there should be more Central assistance to the States, each State also felt that it was not being fairly treated as compared to others. Considerable controversy developed as a result of the proposal put forward by the Planning Commission for special assistance outside the Plan to nine States which were expected to have large deficits on non-Plan account. The States which were not benefitting from this scheme felt that they were being made to suffer for having managed their finances better and that this scheme was a kind of bonus to improvident States. Fears were also expressed in some circles that the provision would be used for giving discretionary assistance to States, and that this would be provided on political grounds.

There is no doubt that this proposal to some extent negated the earlier decision that Central Plan assistance would be distributed on the basis of specified principles. But the difficulty seems to have been that in spite of the Finance Commission's award, which was expected to meet the non-Plan deficit of States, it was observed that certain States would continue to suffer from large non-Plan deficits during the Fourth Plan period. It was feared that unless something was done about this problem, with some non-Plan demands having almost a prior charge on the finances of the States, their Plan outlays would to that extent suffer and thus adversely affect the overall scheme of national development under the Fourth Plan. Hitherto, States faced by such difficulties have resorted to unauthorized overdrafts

from the Reserve Bank which the Centre has been almost compelled to make up through *ad hoc* loans. The approach suggested by the Centre in March, 1970, was that it would be much better to take an advance view of such difficulties and provide special loan assistance to help such States tide over them instead of either permitting an erosion in the minimum development outlay required to be undertaken by them or going to their assistance after they have over-drawn from the Reserve Bank. It is felt that the newly suggested scheme would enable the Planning Commission to have a greater influence over the financial management by these States and this might make for better financial discipline.

The vociferous opposition by a number of States to this proposal was a good indication of the communication gap between the Centre and the States in such vital matters affecting development planning. It appears that, as a result of the explanation provided on behalf of the Centre, the criticism was mollified and the Plan proposals of the Planning Commission, including the scheme of special assistance, were broadly approved. The lesson from what happened is, however, clear. First, there must be a much better organized and continuous dialogue between the Centre and the States; and second, such a dialogue can be useful and effective only if the nature of the Planning Machinery in the Centre as well as in the States is improved.

It also needs to be realized, even more than in the earlier years of planning, that the political impact of Plan proposals would have considerable influence on the attitude adopted by the State Governments to them. State Governments are increasingly subject to political pressures for amelioration of the conditions of various sections of the people and their very survival depends upon their being able to show that the development plans formulated and implemented by them are such that some impact on the acute problems facing the State would be visible within a short period of time. This is not always reconciliable with the long-term requirements of growth either of the particular State or of the country as a whole. It is, however, essential that the Plan proposals suggested and supported by the Planning Commission should be such as would marry the long-term requirements of growth with the short-term requirements that the State Governments cannot but be interested in. It is true that the Planning Commission's new approach does not come in the way of any State making a bold attempt at a much greater development effort if it has the ingenuity, competence and courage to mobilize the resources necessary for such an effort. Such a negative approach may, however, not be enough. It may be necessary for the Planning Commission to put forward specific alternatives for the States

to attempt and even suggest to the Centre that some incentive for the States to follow the alternative which requires greater resource mobilization or gives larger weightage to long-term growth, might be provided. Unless the Planning Commission acts in this manner as a 'lobby' for growth—if it merely continues to make "realistic" estimates for what the States are likely to do—the present drift under which the States do not undertake to do what they are expected to do and only go on demanding more and more Central assistance is likely to continue.

Unbalanced Development

The other main point of criticism, as noted earlier, has been regarding unbalanced development among different States and regions arising out of an uneven distribution of industrial projects both in the public and the private sectors. As a result of the efforts of the two Study Teams appointed by the Planning Commission on the recommendation of the NDC, certain steps for ameliorating the backwardness of some of the more backward States and regions have been agreed upon.[32]

One of the Study Teams had specifically suggested that special assistance should be provided for the development of industries in the backward States which had been named on the basis of certain criteria. The Group did not dispute that there were backward areas in the so-called more developed States also. The country as a whole is backward. But the idea was that the somewhat better-off States could provide assistance for the development of their own backward areas. Central assistance for this purpose should be confined to the backward States because it could then be somewhat larger in magnitude and thus could make some clear-cut impact in a short time. However, in the NDC Sub-Committee, a compromise had to be reached under which backward as well as other States would obtain a share in this special assistance for industrial development of backward areas—the backward States obtaining more assistance than the others. It has also been agreed that other kinds of assistance like special terms for credit from the financial institutions should be available to the backward areas in all States.

Apparently, the State Governments find it useful to support demands for the location of large projects—public sector or private

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[32] *See* : (*i*) Planning Commission, *Report of the Working Group on Identification of Backward Areas,* and (*ii*) Planning Commission, *Report of the Working Group on Fiscal and Financial Incentives for Starting Industries in Backward Areas,* Delhi, Manager of Publications, Government of India.

sector—in their own territories in spite of the well-observed phenomenon that the economic growth of different States has not been much related to the location of large projects in them. Punjab which has shown probably the best development among all the States has few major industries located there. The creation of the necessary infrastructure, provision of technical assistance and credit facilities, development of proper technical training and the building up of a climate where enterprise and entrepreneurship thrive, are known to contribute far more even to industrial development than the location of a few prestige projects. However, it is much easier either to put pressure on the Central Government to locate a major project in the State or to support public agitation about it. Many State Governments have fallen prey to such temptations. Moreover, where large projects have already been located, few State Governments have been able to plan the development of complementary and ancillary industries so as to take advantage of the large projects. Unfortunately, the approach has sometimes been to treat the project as a milch-cow, pressurizing the management not only for the employment of local personnel even at higher professional and technical levels but also supporting demands for excessive employment. Such short-cuts have only worked to the detriment of the genuine economic growth of the States as well as of the country as a whole. As already mentioned above, such shortsighted approaches are, however, inescapable as long as no genuine long-term plans for development are prepared for the different States.

Constitutional Amendment?

A suggestion is frequently made that the Constitution be amended to provide a better balance of financial powers between the Centre and the States. Many protagonists of State autonomy feel that the inadequate tax powers allotted to the States and the very narrow base of statutory devolution of revenues need a substantial modification. It has also been suggested that grants under Article 282 have become predominant even though these are non-statutory and entirely within the discretion of the Centre. This is objected to as making the States overdependent on the Centre.

As against this, it has been pointed out that the States have not effectively been able to utilize all the tax powers allotted to them—agricultural income tax being the most prominent example. Even in sources like the sales tax, as well as various levies on land, States have found it difficult to adopt rates of taxation significantly higher than those adopted by their neighbours. The Centre has been frequently urged to provide a lead in coordinating the tax policies of groups of

States and to some extent this has been attempted. The replacement of the sales tax by excise duties whose proceeds are distributed among States has in the case of a few critical commodities been found to be very useful from the point of view of uniformity as well as revenue collection. It has even been suggested that if no distinction had been made in the Constitution for tax purpose between income from agriculture and that from other sources, the present anomalies in income taxation and the hesitation felt in imposing taxation on agricultural incomes would not have existed. The reluctance of most State Governments either to undertake taxation of agricultural incomes or to raise it to levels comparable to those imposed on non-agricultural incomes, the tendency to abolish land revenue even though its incidence has become nominal in the case of even the poorest farmers, and the reported reluctance of some State Governments even to assist the Centre in collecting the levy on agricultural wealth, all point to the difficulty that the State Governments experience in resorting to taxation which would hurt significant sections of their voters. Any further devolution of tax powers might in such circumstances only reduce the possibility of mobilization of financial resources. A much better approach would be for the Union Government, which is a little less affected by such pressures, to continue to have these tax powers—and if possible, even the additional power to tax agricultural incomes—but ensure that a substantial part of the finances so mobilized are distributed among States on a statutory basis.

Another contention that has sometimes been raised in this context is that too much emphasis in the grant of assistance has come to be placed on Article 282 of the Constitution. As a matter of fact, because Plan assistance is provided under this provision, assistance given under it has tended to become far more important than grants provided under other Articles—though the latter are subject to determination by a semi-judicial body like the Finance Commission. It is, therefore, sometimes suggested that grants of this magnitude should either be made subject to devolution through another semi-judicial authority or they should be brought under the Finance Commission's purview. The question of the proper relationship between the Finance Commission and the Planning Commission has also been raised in this context.

While it is obvious that the distribution of Central assistance among States, whether for Plan or non-Plan purposes, must be based on commonly accepted principles, the question whether the distribution should entirely or even mainly be made on the basis of semi-judicial awards needs to be carefully examined in all its implications. While it is only appropriate that the States should obtain a substantial part

of Central assistance required to meet their normal (non-Plan or committed) expenses by a system of statutory devolution, and even some proportion of the Plan requirements should be automatically available to the States, it would neither be desirable from the point of view of the requirements of national finance nor in the interest of national development that the bulk of the Plan assistance should be available to the States unconditionally as a matter of right. While in normal times, quite a substantial part of Central revenue should be made available to the States in keeping with the requirements of the States for development in subjects allotted to them under the Constitution, occasions can arise when the Union Government may be required to divert substantial amounts to purposes under its control, such as defence. It is, therefore, necessary that decisions about how much of the total Central revenue over a period of time should be retained for Union purposes and how much should be made available to the States should not be immutable beyond a point; some discretion to the Centre in this matter is necessary. Further, as explained later, the Centre should be in a position to ensure, albeit in broad terms, that a State satisfied certain essential requirements regarding its Plan effort before it becomes entitled to its allotted share of Plan assistance. While it is obvious that the Centre should not arrogate to itself the authority to decide all manner of details regarding the developmental effort of the States, the National Plan as a whole cannot be properly carried through unless the Centre can use the lever of financial assistance to ensure the States' compliance to certain basic directives given in the interest of the development of the country as a whole. To ensure that the Centre does not unduly utilize these powers, it is necessary that the Planning Commission enjoys the trust and confidence of the States as well as the Centre for its professional competence, political integrity, and impartiality.

It is also necessary to make sure that the Finance Commission does not come to operate in a vacuum. For this purpose, maintaining a nucleus secretariat for the Finance Commission, which would be adequately in touch with the studies in State planning and finances being undertaken in the Planning Commission, is essential. The coordination between the Planning Commission and the Finance Commission may take any suitable form; one Member being common may be one alternative to be considered. What is important is that the work of these two bodies should be closely co-ordinated.

Ideology and Centre-State Disputes

It is sometimes felt that with different political parties or party combinations coming into power at the Centre and in different States,

a spceial difficulty has arisen in the way of effective formulation of a National Plan. But the experience of the formulation of the Fourth Five Year Plan in the period since 1967 does not suggest that ideological differences among parties in power create any special difficulties in planning. As a matter of fact, almost all States have similar attitude to the Centre. In matters like mobilization of resources, they all want the Centre to do a great deal but are themselves not only reluctant to take the measures suggested by the Planning Commission for the States but are not always ready to provide administrative support to the Centre regarding measures that may be disliked by vocal sections.

Taking the concrete problems that economic development in India faces, especially in the spheres allotted to the States, the possible impact of ideological differences does not appear to be important. The only possible major difference of opinion could have been about land reforms; but hardly any important political party opposes these in principle. The real problem is not one of ideology so much as of a clear understanding of what is required and the building up of effective instruments to carry it out. Political courage to tax certain elements of the population which have benefited from development efforts in the past and without whose contribution further development effort cannot be easily sustained, is also necessary. Concrete measures in this direction might involve some ideological difference. The main difficulties, however, are the absence of far-sighted approach, political courage, and administrative ability.

Political Instability

Political instability seems likely to be in future a much greater source of potential weakness in development planning than ideological differences. Experience regarding the policies pursued by different parties and party combinations that have been in power recently in certain States suggests not only that decision making on a sustained long term development plan suffers with unstable legislative support but also that there is an obvious unwillingness to do anything which might adversely affect any major section of the electorate. Economic development cannot be ensured without the citizens themselves paying the necessary cost, undertaking efforts and making sacrifices. Asking for more Central assistance and putting all blame for various ills on the Centre may appear to be a short term way out but it can obviously solve no real problem. At the same time, it is important that the Centre shows not only tact but also the necessary courage in meeting its own responsibility to solve inter-State disputes which obstruct development. The reluctance of the Centre to use the Constitutional

provision available for such purposes, permitting matters like inter-State river disputes to drift for years, cannot but affect development planning adversely.

Some Central Direction Essential

It should not be overlooked that, in attempting to remove the anomalies in Union-State relations in planning resulting from the Union Government's undue domination in the past, the Union Government and the Planning Commission may lose control over the levers through which adherence to an overall National Plan and its essential requirements can be ensured. Both political and administrative influence and the scheme of financial assistance for planning have been responsible in earlier years for ensuring that the States fell in line with overall national policy in some essential respects. This happened, for example, in a major policy like land reforms, though the implementation of this policy left much to be desired. But increasingly, especially in recent years, the Centre's political and administrative influence has declined. At the same time, Central development assistance is coming to be distributed with few conditions. The Centre's ability to ensure that certain essential development plans, policies and programmes are accepted and implemented by the States, is thus being steadily eroded. The best evidence of this is the States' refusal, right since 1962, to improve genuinely their planning apparatus. Another example is the indifference, if not hostility, evinced by most States to the suggestions of the Planning Commission regarding mobilization of more financial resources for development—through more rational charges for irrigation and electricity, limitation of non-developmental expenditure, and tapping important tax resources, especially the increasing income of well-to-do farmers. Unless the Union authorities —both the Planning Commission and the Finance Ministry—are able to insist on a major part of financial assistance becoming available only on certain specific conditions, would it be possible to ensure that States adopt appropriate development measures? Leaving this entirely to the will of the States might be politically expedient but it would constitute an abandonment of National Planning. Moreover, what one State does in a field like Sales Tax, for example, has very much to be related to what the neighbouring States are doing. Large differences among neighbouring States in policies regarding irrigation and power rates create economic as well as political difficulties. It is economically as well as politically undesirable that some States remain far behind in economic progress or that they mismanage their affairs. It is the Union Government which has the ultimate responsibility to ensure that this does not happen; that is why it enjoys superior financial

as well as other powers under the Constitution. Using financial powers in time is far better than resorting to coercive ones when things go out of hand.

What is suggested is not a return to the old pattern of detailed Central control. But surely the Centre cannot abdicate the responsibility of ensuring that development efforts are undertaken by all the States up to a minimum degree. Incentives by way of extra payments, or withholding of promised assistance, might both have their uses. As mentioned earlier, the Planning Commission has authority under the new scheme of assistance to insist on non-diversion of outlay on certain specific Heads of Development and also on reducing Central assistance pro-rata if the overall Plan outlay of the State falls short of approved outlay in a Plan period. But is this enough ? Should not the Centre be in a position to induce the States to pursue certain specific policies?

Development Bank

The proposal to create a National Development Bank was put forward by an ARC Study Team as one method through which the grant of Central assistance could be rationalized. Past experience suggests that it is essential to ensure that major projects which are included in the Plan by a State are based on a study of different alternatives. It is also necessary to make certain that the selected projects are undertaken after proper preparation, and that they are executed speedily and economically. One difficulty in ensuring this has been that the assistance for State projects is provided as an inter-governmental transaction. Of course, there is no necessary reason why the Central Government through the Department concerned should not make sure that the project is properly formulated and the organization for execution established before assistance is actually made available; and further that the assistance is so utilized that the project is completed in the stipulated period of time, and within the estimated cost. Experience up to now, however, indicates that the Departments and Ministries of the Central Government are in practice not able to make sure of these conditions being satisfied. Even in irrigation and power schemes, where the Central Government has an excellent technical agency—the Central Water and Power Commission—at its disposal, it has not been possible to ensure that these conditions are satisfied. It has also not been possible for the Union Government to make sure that arrangements for the exploitation of the potentialities of a project are made at the proper time, and that the charges levied are such that the maintenance of the project and the payment of interest as well as

the repayment of the principal do not become a further burden on the State Exchequer except in those few cases where subsidy is deliberately sanctioned. Equipping Central Ministries and Departments to undertake these functions may not always be feasible; and political pressures can operate on them directly so that they cannot always insist on such conditions. Reorganizing the approach and functioning of the Central Government ministries and departments for this purpose may, therefore, not be practicable.

It was, therefore, suggested by the ARC Study Team on Financial Administration that a National Development Bank may be set up which will be in charge of the disbursement of Central loans to State authorities for identifiable productive projects. The ARC itself did not support the idea and it has also not found support from other Union authorities. It is not known whether the Planning Commission itself is in favour of the idea, but it has not sponsored the establishment of such an institution. However, what has happened is that institutions in particular fields of activity are coming to operate on these lines. Thus, the Rural Electrification Corporation is operating on a commercial basis—providing loan assistance for schemes, charging differential rates of interest according to the backwardness of the region and insisting on techno-economically sound schemes and levying of proper charges. The fact that the Life Insurance Corporation is coming to play an important role in providing loans for housing, slum-clearance and similar developments, would ensure that a similar commercial approach would be adopted regarding these schemes. Even before the nationalization of major banks, they were expected to play an increasingly active role in financing schemes for the development of agriculture and small industry. After nationalization, this trend is expected to develop faster and the banks would obviously have to make sure that the finance provided by them is properly utilized on viable schemes.

The major gap in this would be in irrigation and power schemes. It is necessary that something must be done regarding a banking approach towards their financing. With political instability facing the Central as well as the State Governments, the temptation for Governments to take decisions on the basis of short-term expediency is considerable. Our experience in the past, when there was greater political stability, suggests that the State Governments may choose projects which are not economically justified, take up more projects than can be simultaneously executed and, in their attempts to court popularity, not levy proper charges on those who benefit from the projects. The Central Government may not always be able to resist such tendencies on the part of the States because of political pressures. An autonomous

financial institution, specifically charged with responsibility to work on commercial lines, might be in a somewhat better position. It may be able to insist on objective criteria for selection of projects and to ensure efficient execution, economic utilization of the capacity created, and the levy of proper charges for the services rendered. Whether even a banking institution would be in a position to do this would, of course, depend not only upon the charter that it is given but also upon the personnel made available to it. This organizational device could, however, be of significant use in our present context. To some extent, this would also be a method of taking such problems out of the field of current party politics—or what is sometimes called 'depoliticization'.

Depoliticization

'Depoliticization' of certain problems is necessary in any democracy to ensure that vital policies and programmes are not adversely affected due to political controversies and changes. This is even more important in a federal country, where the parties in power at the Centre and in the States may be different. We already have such an approach. For example, the Finance Commission is an instrument with the use of which the devolution of certain types of financial assistance is decided upon through the award of an expert, neutral body. The conversion of the Planning Commission in 1967 into a more professional and expert body, less prone to political influence, was a step in the same direction. The creation of a Development Bank for administering loan assistance for identifiable projects would be another similar method. The creation of professional, expert planning agencies in the Central Ministries and also in the States could also increase the possibility of there being a much greater mutual appreciation and understanding of the problems under dispute. Professionally acceptable solutions to many such problems could be worked out either before they come up at the political level or on the basis of certain assumptions or formulae which political leaders might agree upon. While it is true that planning which vitally affects the life of the community—both of the present and the future generations—cannot ultimately be kept out of politics, many aspects of it can be depoliticized in these ways. The more this can be done, the less the possibility of exacerbating Centre-State relations on account of planning.

VI

CONCLUDING REMARKS

Centre-State relations pose difficult problems in all federations. This happens especially because many aspects of these relations, unforeseen or only dimly understood at the time of Constitution making, later come to the forefront. In India, with all the centralizing

tendencies which dominated over a century of British rule, centrifugal tendencies could not but become stronger as democracy began to strengthen its roots among the diversity of her millions spread over a vast territory. In spite of all their differences, people come together when faced by external aggression as was evidenced by the unity shown by all the States rallying behind the Centre in 1962 as well as in 1965. If the country is to progress, however, it is not enough to unite for war; it is as important to unite for a common positive purpose, such as that of economic development. Jawaharlal Nehru thought of development planning as the new, strong, and positive bond that would hold the country together. In pursuance of this, institutions, such as the Planning Commission and the National Development Council, were created which, though no statutory basis was provided for them, have struck deep roots and have played a vital role in the working of the federal system in India. Various working conventions have been evolved and major developmental tasks undertaken by common consent through the operation of these institutions.

As happens in any institution, what might succeed in the initial phase of enthusiasm and on a temporary basis may not successfully operate for long. This is evidenced by the difficulties that arose in Centre-State relations in planning specially since the time of formulating the Third Five Year Plan. With Jawaharlal Nehru's death and the economic and political difficulties that faced the country since 1965, the problems became acute and the changed political situation made it obvious that a much better thought out and rational basis for Centre-State relations, in all fields, was necessary. Various attempts have been made since 1964, and specially since 1967, to meet this challenging task. The reorganized Planning Commission has gone a long way since 1967 to put Centre-State relations in planning on a more systematic and rational basis. However, experience of the last two years suggests that what has been done is not enough. Much more needs to be done if development planning is to proceed ahead, firmly founded in a national understanding and acceptance of the challenges involved. It is with a view to meeting this requirement that a few ideas have been put forward for consideration in this paper.

Table 1

ERSTWHILE FOURTH FIVE YEAR PLAN (1966-71)—DRAFT MEMORANDA OF STATES

(*Rupees in Crores*)

Sl. No.	*States*	*Ceiling Indicated by the Planning Commission**	*Outlays Proposed by States*	*Col. (3) as % of Col. (2)*
(1)	(2)	(3)	(4)	(5)
1.	Andhra Pradesh	610	784	128.5
2.	Assam	240	375	156.2
3.	Bihar	674	940	139.4
4.	Gujarat	470	470	100.0
5.	Kerala	340	442	130.0
6.	Madhya Pradesh	600	800	133.3
7.	Madras	582	750	128.8
8.	Maharashtra	780	1186	152.0
9.	Mysore	500	500	100.0
10.	Orissa	320	460	143.7
11.	Punjab	462	500	108.2
12.	Rajasthan	472	438	92.7
13.	Uttar Pradesh	996	1405	141.0
14.	West Bengal	586	618	105.4
15.	Jammu & Kashmir	150	130	85.6
	Total	7,782	9,798	125.9

*For the purpose of preparing memoranda on the Fourth Plan of States, Planning Commission had suggested that an outlay of about twice the outlay in the Third Plan should be regarded as the upper limit for the formulation of the States Plans for the Fourth Plan period. The figures in Column 3 indicate that the ceiling in terms of the original Third Plan outlay for respective States.

SOURCE: Draft Memoranda of States on the Fourth Five Year Plan (1966-71).

Table 2

ANNUAL PLAN, 1966-67

OUTLAYS BY STATES

(*Rupees in Crores*)

Sl. No.	*States*	*As intimated to the States (Plan Ceiling)*	*Proposed by States*	*Working Group Recommendations*	*Programme Adviser's Recommendations*	*As agreed to after Discussions*	*Col. (7) as % of Col. (4)*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Andhra Pradesh	81.70	99.86	92.06	79.25	79.25	79.3
2.	Assam	28.10	34.25	28.63	23.45	26.45	77.2
3.	Bihar	75.40	76.80	80.40	70.83+2.00	71.83	93.5
4.	Gujarat	50.90	52.07	52.11	49.69	49.69	95.4
5.	Jammu & Kashmir	16.20	20.03	19.11	18.80	19.04	95.0
6.	Kerala	40.10	43.01	42.06	41.55	40.35	94.2
7.	Madhya Pradesh	59.20	62.50	58.26	No recommendation	58.00	92.8
8.	Madras	73.10	79.51	77.33	75.33	75.33	94.7
9.	Maharashtra	115.80	134.77	126.55	120.34	120.34	89.2
10.	Mysore	52.60	47.00	56.34	50.72	50.72	107.9
11.	Orissa	48.20	54.20	52.58	45.77	45.77	84.4
12.	Punjab	53.90	55.50	70.81	59.93	59.93	107.9
13.	Rajasthan	42.00	42.75	46.45	37.96+2.00	37.96	88.7
14.	Uttar Pradesh	131.30	161.12	155.63	137.95	133.95	83.1
15.	West Bengal	41.50	76.47	67.47	57.54	57.54	75.2
	Total	930.00	1039.95+6.16 by Nagaland, *i.e.*, 1046.11	1025.69	931.11*	926.35+5.11 for Nagaland, *i.e.*, 931.46	89.0

*On the assumption that Adviser's recommendations were the same as those finally agreed upon.

SOURCE: Programme Administration Division (Planning Commission): File No PC(P)2/65.

Table 3

FOURTH FIVE YEAR PLAN, 1969-74

(*Rupees in Crores*)

Sl. No.	States	Outlays Indicated by Planning Commission	Outlays Proposed by States	Col. 4 as % to Col. 3	Recommended by Working Groups	Recommended by Adviser (PA)	Outlays Approved in the Draft Plan (April 1969)	Col. (8) as % to Col. 4	Final Outlays on the basis of Resources (Mar. 1970)	Col. 10 as % to Col. 4
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1.	Andhra Pradesh	522.00	660.64	127	651.17	360.00	360.55	54.5	420.50	64
2.	Assam	190.00	394.81	208	260.28	225.53	225.50	57.1	261.75	66
3.	Bihar	545.00	493.74	91	597.60	441.00	441.61	89.4	531.28	108
4.	Gujarat	446.00	565.90	126	562.58	390.00	450.22	79.5	455.00	80
5.	Haryana	168.40	262.00	155	293.59	190.00	190.49	72.7	225.00	86
6.	Jammu & Kashmir	126.00	225.46	179	184.36	145.00	145.00	64.3	158.40	70
7.	Kerala	293.00	466.75	159	400.21	257.37	258.40	55.3	258.35	55
8.	Madhya Pradesh	458.00	552.80	121	554.34	355.00	355.96	64.3	383.00	69
9.	Maharashtra	951.00	1000.22	105	1030.88	810.97	811.80	81.2	898.12	90
10.	Mysore	421.00	440.00	106	446.15	355.00	327.10	74.3	350.00	80
11.	Nagaland	30.00	58.66	196	42.88	34.00	35.00	59.6	40.00	68
12.	Orissa	300.00	321.49	107	303.22	179.16	180.50	56.1	222.60	69
13.	Punjab	280.00	325.00	116	401.28	250.00	271.40	83.5	293.56	90
14.	Rajasthan	313.00	313.00	100	349.73	236.70	238.96	76.3	302.00	96
15.	Tamil Nadu	564.32	623.68	111	604.82	501.00	502.00	80.5	519.36	83
16.	Uttar Pradesh	926.00	1350.00	146	1235.80	950.00	951.00	70.4	965.00	71
17.	West Bengal	492.51	654.74	133	639.41	324.00	320.51	48.9	322.50	49
	Total	7,026.23*	8,708.89	124	8,558.31	6,004.73	6,066.00	69.6	6,606.42	76

*The State Governments were requested not to exceed the outlays which had emerged in old Fourth Plan (1966-70).

SOURCE : Programme Administration Division, Planning Commission.